HOUSING MARKET OUTLOOK
Kingston CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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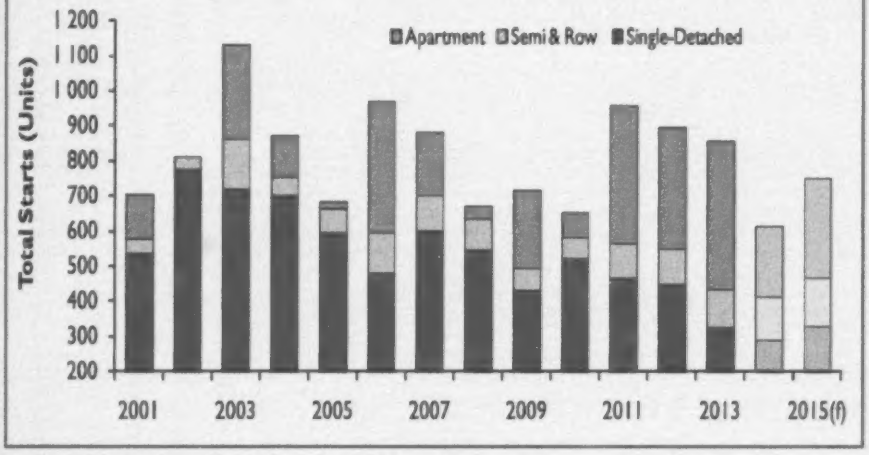
Highlights

- Kingston's existing home sales will remain steady in 2014 and will post modest growth in 2015.
- Kingston's existing home average price to increase by 1.8 per cent this year and 2.4 per cent in 2015. This growth rate reflects an expected continuation of balanced market conditions.
- At 615 units in 2014 and 750 in 2015, Kingston's total housing starts will be lower than the number posted in 2013.

Figure 1

Kingston's Total Housing Starts to Moderate



Source: CMHC (Starts Survey); f = CMHC Forecast

The forecasts included in this document are based on information available as of April 30, 2014.

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New Home Market

Kingston's total housing starts this year will come in below that of last year's number. Total starts will be lower as the result of a fewer number of apartment and single-detached starts, which will be marginally offset by increases in the semi-detached and row segments. 2015 will see a rebound in starts when larger apartment projects begin and single-detached construction picks up.

In 2014, apartment starts will remain robust and continue to play an important role in the new housing market. With apartment construction activity still above historic levels, it is only natural that some pull back will happen. In March of this year, the number of apartment units under construction reached 463, which was well above the last decade's average.

Single-detached construction in Kingston has been responding to market signals like lower existing home sales and higher inventories by trending downwards in recent years. At the moment the number of single-detached homes under construction has dropped to a record low, which will help to mitigate the possibility of further growth in unsold inventories. In 2014, the number of single-detached homes expected to be built is 290, which remains below the 10 year average.

In recent years row houses have begun to play an increasingly important role in Kingston's new home market, and have also seen increasing demand in the resale market. Higher single-detached prices, demographic changes and mortgage rates will shift demand towards higher density housing and we expect to see rows continue to increase in numbers. First time home buyers, who are particularly conscious of costs, will continue to choose them as an entry point into the homeownership market.

Figure 2

Source: CREA (MLS®); f = CMHC forecast
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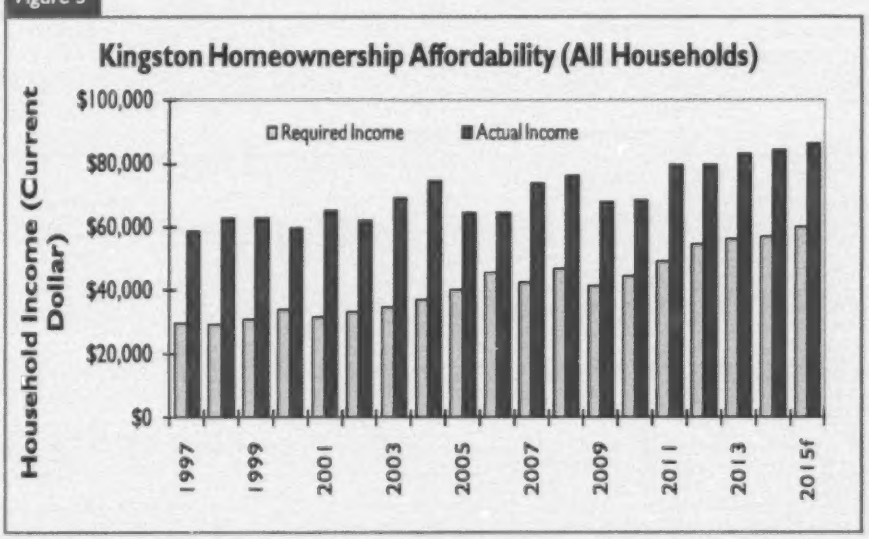
Resale Market

So far this year the number of existing home sales has come in lower than expected, a trend that was also seen in the rest of Ontario. Some of this was due to buyers delaying their purchases as a result of the harsh weather conditions this winter. And for the remainder of 2014 some rebound in sales is expected. Total

Figure 3



Source: CMHC, Statistics Canada, CREA. *Required income is mortgage carrying costs divided by 0.32 to reflect the usual 32 percent gross debt service ratio. Mortgage carrying costs are calculated on the average MLS® price, a 10 per cent down payment, the fixed five-year mortgage rate and the longest available amortization.

sales this year will be similar to the previous year at 3,100, with a modest increase in sales in 2015.

Existing homes sales will remain robust because of a healthy employment picture and increasing average wages in Kingston that will create positive momentum in housing demand. As well, sales will continue to get a boost from stable monthly mortgage carrying costs. An outlook for gradually increasing mortgage rates, slower home price appreciation and growing incomes will help keep mortgage payments steady.

Market conditions in Kingston will remain balanced, but face moderate risks from elevated inventories. The sales-to-new listings ratio, which measures the balance between demand and supply, is expected to remain under .50 as listings move in tandem with sales this year. However, there is a downside risk that the number of new listings will continue last year's trend of outpacing sales, which could push the market into buyer's territory.

Recent demographic and employment changes suggest that there will be stronger first-time home buyer activity in the coming years that will shore up housing purchases. 2013 saw strong growth in the 25-34 age group, which is a group that tends to be moving into home ownership for the first time. The labor market posted similar behavior, with those aged 25-44 experiencing the fastest pace of job growth over the last year. This job growth among the younger demographic has the potential to increase their willingness to buy homes.

Average resale prices in 2014 will move above that of the previous year and will continue to see modest growth into next year as well. This outlook comes as a result of healthy leading indicators – increases in employment and wages, low mortgage rates and market balance – that tend to result in upward movement in prices. Given this, our expectation is that the average annual resale price will increase by 1.8 per cent in 2014 and 2.4 per cent in 2015.

Nevertheless, over the next year prices will be kept in check by higher levels of inventories in the existing home market. Kingston's market is currently balanced, but is also flirting with buyer's market territory. From this it can be expected that price growth will be constrained as the market adjusts to reduce supply. This moderate price growth will have the effect of keeping affordability stable; the required income to buy the average home will grow in line with the average actual household income in Kingston.

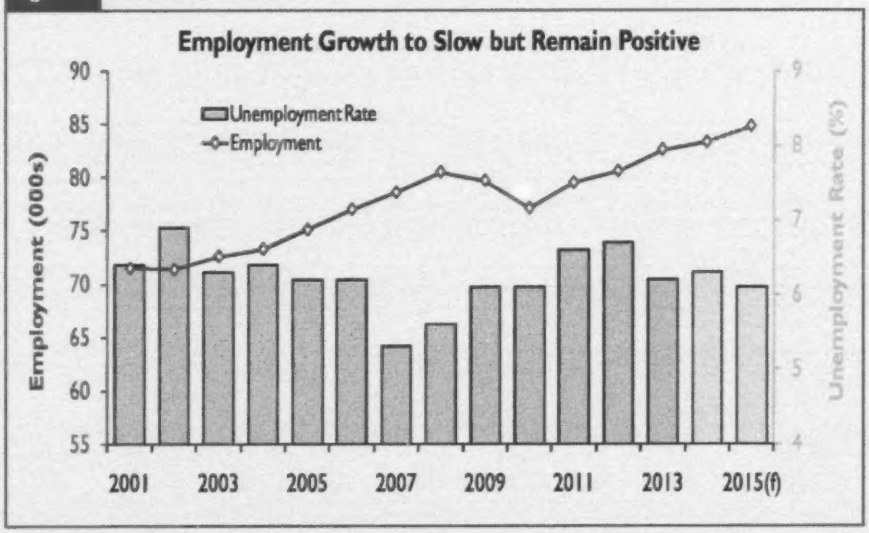
Rental Market

Expectedly, the last year has seen marked growth in newly completed rental units. Relatively higher rents and persistently low vacancy rates encouraged investment in Kingston's rental stock. As of March this year, the number of rental units under construction (348) was still above the ten year average. Given recent market tightness, higher construction activity in this segment will come as a welcoming sign. These new units will go a long way to creating improved balance in the market.

Rental starts will stay robust because of the strong demand for newer rental units in Kingston. Vacancy rates remained the tightest among new buildings in 2013 as renters appreciated the new amenities that these buildings offer. Consequently, these newer units are able to fetch a higher rent, which will continue to support newer developments.

As a result of supply growth, the vacancy rate in Kingston is expected to continue its loosening trend over the next two years. 2014 and 2015 vacancy rates are forecasted to be 2.4 per cent and 2.6 per cent respectively. Moreover, the average two-bedroom rent will continue to see growth

Figure 4



Source: Statistics Canada; f = CMHC Forecast

above general inflation this year and next.

Economy

Kingston's employment numbers will see modest growth in 2014 and 2015. Provincial and Federal governments continue to constrain costs, which will keep a lid on employment growth. However, Kingston's other industries will continue to see expansion, and move in step with improving economic conditions in Ontario. Employment growth in the next two years will move the unemployment rate to 6.3 per cent and 6.1 per cent in 2014 and 2015 respectively.

The Kingston area will gain from stronger growth in the North American economy at large. Recent improvements in the U.S. economy point to increased growth in Ontario's economy, particularly among export sectors. Adding to this is the sizable depreciation in the Canadian dollar that will increase the profitability of export operations, thus creating more attractive investment opportunities. Export oriented sectors in the Kingston CMA stand to benefit from this additional demand from abroad.

The outlook for the construction sector remains positive in Kingston. On top of the higher levels of multi-unit construction activity, large infrastructure projects will provide a boost to economic growth over the next two years. In particular, the construction of the new 270-bed Providence Care Hospital is expected to last until 2016, and will require at its peaks 350 workers. As well projects like the reconstruction of Princess Street in the Williamsville neighbourhood will also provide employment support through 2014 and 2015.

In the next two years, net migration into Kingston will remain positive, a consequence of employment growth and foreign students attending one of Kingston post secondary institutions. Kingston also remains a popular destination for retirees looking for a modest urban lifestyle at lower costs than bigger centers.

Mortgage Rate Outlook

Mortgage rates to see gradual and modest increases by the end of 2015, but will remain low by historical standards

- Consistent with the view of Canadian economic forecasters, CMHC expects interest rates to register gradual and modest increases by the latter part of the 2015 forecast horizon. This will lead to increases in mortgage rates. Despite this, mortgage rates will remain low and will continue to support housing market activity over the forecast horizon.
- According to CMHC's base case scenario for 2014, the average for the one-year posted mortgage rate is forecast to be within 3.0 per cent to 3.50 per cent, while the average for the five-year posted mortgage rate is anticipated to be within 5.0 per cent to 5.5 per cent. For 2015, the average for the one-year posted mortgage rate is expected to rise and be in the 3.20 per cent to 4.25 per cent range, while the average for the five-year posted mortgage rate is forecast to be within 5.25 per cent to 6.0 per cent.

Mortgage rates		
1 Year	Q1 2014	3.14
	Change from Q1 2013	0.14
	2014 (F)	3.00 - 3.50
	2015 (F)	3.20 - 4.25
5 Year	Q1 2014	5.15
	Change from Q1 2013	-0.06
	2014 (F)	5.00 - 5.50
	2015 (F)	5.25 - 6.00

Source: Bank of Canada, CMHC Forecast
NOTE: Mortgage rate forecast is based on Q1 2014 data

Trends at a Glance

Key Factors and Their Effects on Housing Starts	
Mortgage Rates	Longer-term mortgage rates will see a gradual increase, while short-term rates will remain at the similar levels.
Employment	Kingston's employment growth will see growth in 2014 and 2015, as public sector employment levels stabilize and the private sector continues to influence job growth.
Income	Kingston has seen a steady increase in weekly average earnings. This will help keep mortgage carry costs manageable as rates rise gradually and support housing demand.
Net Migration	Positive net migration in the next two years will create population growth that stimulates demand for additional housing, in particular rental demand.
New Home Starts	Kingston's total housing starts this year will come in below that of last year's number, mostly as a result of fewer apartments. In 2015, starts will pick up with most housing types seeing growth.
Resale Market	Market conditions in Kingston will remain balanced, but face moderate risks if recent growth in active listings continues. A move into buyer's market could signal oversupply, which may lead to price moderation.

Risks to the outlook

This outlook is subject to some risks, including:

- Should the inventory of new units increase inordinately, builders may delay or reduce the size of some construction projects. This could lead to a sharper-than-expected moderation in starts.
- Canadians are still accumulating debt, albeit at a stable pace. Nonetheless, levels of household debt remain relatively high. With historically elevated house prices in some urban centres, these factors have made the Canada's economy more vulnerable to some economic shocks. For instance, if a sharp increase in interest rates or a large deterioration in employment were to occur, some of the more heavily indebted households could be forced to liquidate some of their assets, including their home. This could put downward pressure on house prices and, more generally, on housing market activity. Although this risk can arise in the shorter term, its impact would not be immediate on most indebted households because of the prevalence of fixed mortgage terms.
- The economies of China and other emerging-market countries remain vulnerable to tightening credit conditions and political uncertainty. This could affect the global economic recovery and world financial system. In turn, this could negatively impact demand for Canadian exports, contributing to a weakening of the Canadian economy and potentially lower demand for housing.
- A stronger than expected U.S. economic growth could positively impact Canadian economic growth, contributing to a higher level of activity in Canada's housing markets.

Forecast Summary Kingston CMA Spring 2014							
	2011	2012	2013	2014f	% chg	2015f	% chg
New Home Market							
Starts:							
Single-Detached	467	449	325	290	-10.8	330	13.8
Multiples	492	447	531	325	-38.8	420	29.2
Semi-Detached	28	12	8	15	87.5	10	-33.3
Row/Townhouse	70	91	103	110	6.8	125	13.6
Apartments	394	344	420	200	-52.4	285	42.5
Starts - Total	959	896	856	615	-28.2	750	22.0
Average Price ($):							
Single-Detached	288,320	296,178	299,493	306,800	2.4	315,450	2.8
Median Price ($):							
Single-Detached	282,000	289,900	294,000	300,000	2.0	309,000	3.0
New Housing Price Index (% chg) (Ont.)	3.6	4.1	2.1	n/a	-	n/a	-
Resale Market							
MLS® Sales	3,179	3,321	3,165	3,100	-2.1	3,210	3.5
MLS® New Listings	6,516	6,819	7,378	7,230	-2.0	7,115	-1.6
MLS® Average Price ($)	261,967	270,275	279,339	284,500	1.8	291,400	2.4
Rental Market							
October Vacancy Rate (%)	1.1	1.7	2.3	2.4	0.1	2.6	0.2
Two-bedroom Average Rent (October) ($)	965	1,005	1,054	1,080	2.5	1105	2.3
Economic Overview							
Mortgage Rate (1 year) (%)	3.52	3.17	3.08	3.00 - 3.50	-	3.20 - 4.25	-
Mortgage Rate (5 year) (%)	5.37	5.27	5.24	5.00 - 5.50	-	5.25 - 6.00	-
Annual Employment Level	79,500	80,600	82,600	83,300	0.8	84,800	1.8
Employment Growth (%)	3.1	1.4	2.5	0.8	-	1.8	-
Unemployment rate (%)	6.6	6.7	6.2	6.3	-	6.1	-
Net Migration [1]	1,307	1,258	952	1,000	5.0	1,150	15.0

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly **Starts and Completions Survey**. Building permits are used to determine construction sites and visits confirm construction stages. A **start** is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's **Market Absorption Survey**, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "**absorbed**" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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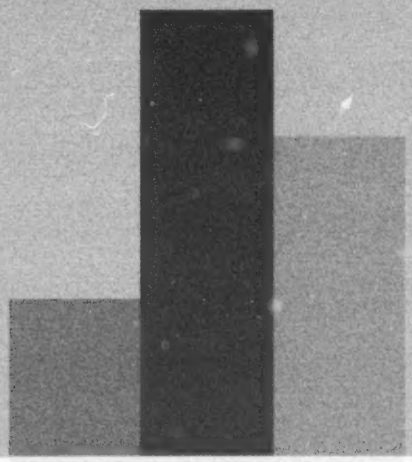

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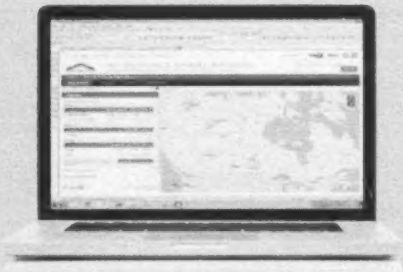

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